

2003 Annual Report



Kentucky Higher Education Assistance Authority

AND

**The
Student Loan
PeopleSM**

Kentucky Higher Education Student Loan Corporation

Mission

KHEAA was created in 1966 by the Kentucky General Assembly to improve the higher education opportunities of persons attending or planning to attend eligible institutions. To that end, KHEAA:

- Administers nine state student aid programs and assists with administration of two other programs.
- Guarantees Federal Family Education Loans for Kentucky and Alabama.
- Provides a multifaceted outreach program to distribute financial aid information and effectively improve Kentucky's college-going rate.

The Student Loan People was created in 1978 as an independent municipal corporation to make, finance, service, and collect educational loans. Its mission is to promote Kentucky's higher education opportunities by providing low-cost loan programs and related services. To that end, The Student Loan People:

- Provides low-cost loans—Federal Stafford Loans, Federal PLUS Loans (for parents), and Federal Consolidation Loans.
- Provides borrower benefits that significantly reduce the cost of borrowing for higher education.
- Provides free college planning and financial aid publications.
- Assists KHEAA in providing outreach services.
- Contributes funds to Kentucky's need-based student aid programs.

Vision

Our vision for the future is to:

- Improve access to higher education.
- Secure full funding of state grant and scholarship programs.
- Fully utilize technology to modernize and simplify student financial aid processes.
- Expand and improve outreach to positively impact the college-going population.

Our Role in Kentucky's Future

2003 was a most productive year for the Kentucky Higher Education Assistance Authority (KHEAA) and Kentucky Higher Education Student Loan Corporation (also known as The Student Loan People) in their pursuit of making higher education more accessible. After years of discussion and deliberation, KHEAA and The Student Loan People saw the respective boards of directors come together, first by the Governor's Executive Order, and ultimately by ratification of the 2003 General Assembly.

This coming together of KHEAA and The Student Loan People is achieving greater efficiencies and eliminating duplications, resulting in substantial benefits to students and to Kentucky. KHEAA's revenue from the Federal Family Education Loan Program (FFELP) covers administrative costs of Kentucky's state student aid programs, allowing General Funds to go directly to students in the form of awards.

The Student Loan People is the state's only public, nonprofit student loan provider. In addition to its annual \$3 million transfer to KHEAA for need-based student aid, The Student Loan People provides the lowest cost student loans available to Kentuckians. During 2003, BestStart benefits for all borrowers and Best in Class benefits for teachers were expanded, and Best in Care for registered nurses was introduced. (Details about each program's benefits are provided in this report.) As a result of these benefits, school teachers and nurses in Kentucky had over \$6.1 million forgiven in principal and interest on their student loans.

KHEAA and The Student Loan People not only partner with each other but with other agencies and organizations that can help make higher education more accessible. Although it is only one of several joint efforts, the "*Go Higher, Kentucky!*" Web portal is a prime example of the collaborative projects in which KHEAA and The Student Loan People are involved. For the first time in the history of the Commonwealth, representatives of the Council on Postsecondary Education, Kentucky Department of Education, Association of Independent Kentucky Colleges and Universities, Kentucky Department for Adult Education and Literacy, Kentucky Community and Technical College System, Kentucky Virtual University, Kentucky Virtual Library, and Kentucky's eight public universities have come together to launch a comprehensive statewide website for all higher education. With an anticipated launch date of summer 2004, "*Go Higher, Kentucky!*" will provide students and families, as early as the eighth grade, an interactive website for Kentucky higher education information and planning.

***KHEAA and
The Student Loan People
play an important role
in helping Kentuckians
obtain a higher education
that will equip them
for full participation
in our global economy.***

Student financial aid programs administered by KHEAA and The Student Loan People play an important role in helping Kentuckians obtain a higher education that will equip them for full participation in our global economy. KEES, Kentucky's very successful merit scholarship program, rewards academic achievement and encourages the best and brightest students to stay in Kentucky. The College Access Program (CAP) Grant and Kentucky Tuition Grant (KTG) help financially needy students pay for college. As more students enroll in higher education institutions and tuition continues to increase, more student financial aid will be needed to ensure that all students who want to pursue a higher education can do so without facing a significant and discouraging student loan debt.

We live in challenging times with many important issues in higher education. KHEAA and The Student Loan People are not only united in our efforts to listen, learn, and respond to each challenge, but also to provide leadership and innovation to ensure Kentucky students have the best possible financial aid programs and services. We are committed to improving Kentucky's future by increasing our college-going rate and graduation rate and ultimately producing better equipped individuals to lead Kentucky in the years ahead.

*Dr. Joe L. McCormick
KHEAA/KHESLC
Executive Director*

*Albert A. Kirkpatrick
KHEAA Board Chair*

*Austin B. Carroll
KHESLC Board Chair*

Direct Benefits to Students—FY2003

Student Aid Expenditures

Program	Recipients	Amount
Kentucky Educational Excellence Scholarship (KEES)	55,990	\$58,191,000
College Access Program (CAP) Grant	35,550	36,346,000
Kentucky Tuition Grant (KTG)	10,230	15,396,100
Conversion Loan Service Cancellation	850	3,403,000
Kentucky National Guard Tuition Award	860	2,198,000
KHEAA Work-Study	1,110	901,500
Early Childhood Development Scholarship	990	678,600
Total	105,580	\$117,114,200

FFELP Loans Guaranteed*

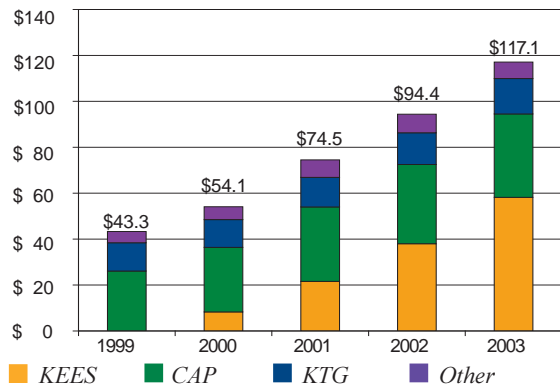
Program	Loans	Amount
Subsidized Stafford	99,400	\$330,083,200
Unsubsidized Stafford	73,850	275,297,700
PLUS	5,900	38,158,300
Consolidation	10,320	144,015,600
Total	189,470	\$787,554,800

Other Program Benefits

Program	Recipients/Loans	Amount
Teacher Scholarship/Loan**	570	\$1,909,500
Osteopathic Medicine Scholarship/Loan**	110	1,353,600
Kentucky Education Savings Plan Trust (KESPT) Payments	170	1,304,400
Insurance Premium Waiver	146,430	5,510,500
Total	147,280	\$10,078,000

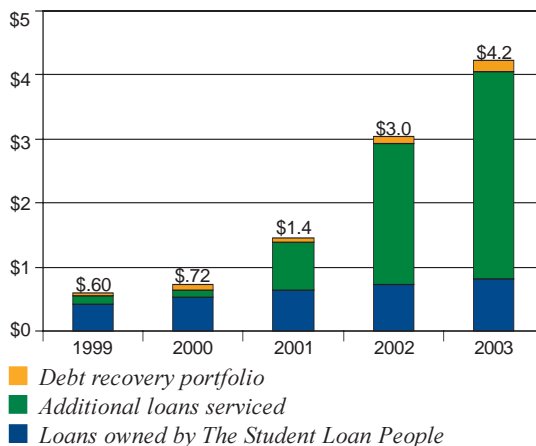
KHEAA Student Aid Expenditures by Fiscal Year

\$ in Millions



The Student Loan People Portfolio by Fiscal Year

\$ in Billions



*Represents original amounts guaranteed.

**These programs are scholarships if service requirements are fulfilled; otherwise, they are repayable loans with interest.

Kentucky's Lowest Cost Student Loans

From The Student Loan People

Saved Students

\$10.4 Million in 2003

The Student Loan People has created three programs to help borrowers save on their student loans—

1. BestStart
2. Best in Class
3. Best in Care

To participate, students must choose The Student Loan People as their lender. The Student Loan People has no fees, credits loan principal for consistent on-time payments, and reduces the interest rate for automatic payments. Almost all Kentucky schools participate in the Federal Family Education Loan Program (FFELP) administered by KHEAA and can offer these savings from The Student Loan People.

Benefit Savings to Students—FY2003

Program	Loans	Savings
BestStart		
2% Principal Reduction for All New Loans	19,930	\$1,719,600
2% Origination Fee Discount	14,410	2,506,800
.25% ACH Interest Reduction	1,170	24,900
Best in Class		
Interest Forgiveness (Teachers, Counselors, Librarians)	1,020	767,400
Interest and 20% Principal Forgiveness		
■ Special Education Teachers	790	3,064,000
■ Science Teachers	260	896,000
■ Math Teachers	230	750,600
■ ESL Teachers	20	63,700
Best in Care		
Interest Forgiveness for Registered Nurses	820	604,900
Subtotal		\$10,397,900
Student Loan People Contributions to KHEAA Student Financial Aid Programs		
■ College Access Program (CAP) Grant		\$1,000,000
■ Kentucky Tuition Grant (KTG)		1,000,000
■ KHEAA Work-Study		1,000,000
Subtotal		\$3,000,000

Total Benefits to Students

\$13,397,900



1. BESTSTART For All Borrowers

- **0% origination fee**
- **3.5% credit** to the original loan principal after the first 30 consecutive on-time payments
- **2% credit** to the principal for completion of the academic period for which the loan was made
- **.25% interest rate reduction** for borrowers who make their loan payments automatically through their checking or savings account



2. BEST IN CLASS For Teachers in Repayment

- **.25% interest rate reduction** for automatic payments
- **Interest forgiveness** for each year of service in Kentucky:
 - Teachers
 - Counselors
 - Librarians
- **20% loan forgiveness** for each year of service in Kentucky:
 - Special education teachers
 - Science teachers
 - Math teachers
 - ESL teachers



3. BEST IN CARE For Registered Nurses in Repayment

- **Interest forgiveness for current registered nurses** with at least an associate degree who are practicing in Kentucky
- **Interest forgiveness and 20% loan forgiveness** for each year of service for borrowers with loans made after July 1, 2003, who become registered nurses in Kentucky
- **.25% interest rate reduction** for automatic payments

Selected Financial Information

As of June 30, 2003, and for the fiscal year then ended.

KHEAA	Governmental and Fiduciary Funds			Proprietary Funds
	Governmental Activities	Federal Student Loan Reserve Fund	Agency Fund	Agency Operating Fund and Internal Service Fund
Statement of Net Assets				
Current assets	\$ 3,116,180	\$ 15,703,951	\$ 260,705	\$ 13,665,929
Noncurrent assets	10,990,162	7,576,232		21,977,889
Total assets	14,106,342	23,280,183	260,705	35,643,818
Current liabilities	175,784	4,495,061	260,705	3,825,924
Noncurrent liabilities				7,930,000
Total liabilities	175,784	4,495,061	260,705	11,755,924
Total Net Assets	\$ 13,930,558	\$ 18,785,122	\$ 0	\$ 23,887,894
Statement of Activities				
Program revenue/additions	\$106,537,388	\$ 53,970,064	\$ 0	\$ 16,992,201
Direct expenses/deductions	117,114,234	55,748,418		14,367,659
Indirect expenses	2,971,418			
Total	(13,548,264)	(1,778,354)	0	2,624,542
Interfund transfers	2,520,477			(2,520,477)
Federal student loan reserve fund transfer		(1,473,023)		1,473,023
Transfer to USDE for recall		(15,361,215)		
Transfer from KHESLC	3,000,000			
Change in net assets	(8,027,787)	(18,612,592)	0	1,577,088
Restricted net assets at beginning of year	21,958,345	37,397,714		22,310,806
Restricted net assets at end of year	\$ 13,930,558	\$ 18,785,122	\$ 0	\$ 23,887,894

To request a copy of the audited financial statements, call (502) 696-7421.

KHESLC	Proprietary Funds
	Operating Fund and Internal Finance Fund
Statement of Net Assets	
Current assets	\$ 107,177,068
Noncurrent assets	1,027,564,081
Total assets	1,134,741,149
Current liabilities	25,817,110
Noncurrent liabilities	1,025,335,782
Total liabilities	1,051,152,892
Total Net Assets	\$ 83,588,257
Statement of Activities	
Operating revenue	\$ 48,784,409
Operating expenses	40,796,039
Total	7,988,370
Transfer to KHEAA	(3,000,000)
Change in net assets	4,988,370
Net assets at beginning of year	78,599,887
Net assets at end of year*	\$ 83,588,257
* KHESLC net assets of \$72,232,787 are restricted for bondholders and capital activities.	
To request a copy of the audited financial statements, call (502) 329-7145.	

2003 Highlights

- KHEAA disbursed \$117 million from grant, scholarship, and work-study programs, including \$58 million in Lottery-funded KEES awards.
- The Student Loan People's BestStart, Best in Class, and Best in Care programs saved students over \$10.4 million on their student loans during FY03 alone.
- The portfolio of loans owned and serviced by The Student Loan People increased 39% to \$4.2 billion; FFELP originations increased 32% to \$125 million; and market share increased 11%—from 35% to 46%.
- KHEAA guaranteed \$788 million in FFELP loans—a 19% increase over FY2002.*
- KHEAA's new loan guarantee volume increased 10% over last year to \$551 million, including:
 - \$287 million for Kentucky.
 - \$235 million for Alabama.
 - \$29 million for other states throughout the nation.
- KHEAA's guarantees outstanding totaled \$2.6 billion; original principal outstanding totaled \$3.5 billion.

*Represents original amount guaranteed.

For More Information, contact:

Kentucky Higher Education Assistance Authority

P.O. Box 798, Frankfort, KY 40602-0798
Toll Free 800.928.8926 www.kheaa.com

Kentucky Higher Education Student Loan Corporation

P.O. Box 24266, Louisville, KY 40224-0266
Toll Free 888.678.4625 www.studentloanpeople.com

KHEAA and The Student Loan People do not discriminate on the basis of race, color, national origin, sex, religion, age, or disability in employment or services and provide, upon request, reasonable accommodations to afford individuals with disabilities an equal opportunity to participate in all programs and activities. Printed 12/03.

Boards of Directors

Joey B. Bailey, Louisville

Marcia Kuegel Carpenter, Owensboro

Austin B. Carroll, KHESLC Chair, Hopkinsville

Betty Young Farris, Roundhill

Janis G. Garr, Lexington

Ronald Green, Louisville

Shirley A. Huelsmann, Fort Mitchell

Dr. Jim A. Jackson, Frankfort

Albert A. Kirkpatrick, KHEAA Chair, Louisville

Bobbie D. Powell, Louisville

John G. Prather, Jr., Somerset

Mary Jo Young, Elizabethtown

Ex-Officio Members

Dr. Gary S. Cox, President, Association of Independent Kentucky Colleges and Universities

Gordon Duke, Secretary, Finance and Administration Cabinet

Dr. Thomas Layzell, President, Council on Postsecondary Education

Jonathan Miller, State Treasurer

Gene Wilhoit, Commissioner, Kentucky Department of Education

Senior Leadership

Dr. Joe L. McCormick, Executive Director and CEO

Janice C. Ernst, Chief of Staff

Charles Robinson, Chief Financial Officer

Blake Tanner, KHEAA Chief Operating Officer

Roger B. Tharp, KHESLC Chief Operating Officer

Scotty Bryan, Chief Information Officer

Ted Franzeim, Senior VP for Customer Relations

Rick Casey, General Counsel

Kirkpatrick was appointed to the KHEAA Board in 2000 and formerly served as Director of Human Resources for LG&E and LG&E Energy Corporation. He has 24 years of human resource experience and served as member and co-chair of the Advisory Board for the University of Louisville Labor Management Center and is a Kentucky Labor-Management Award recipient. Kirkpatrick earned his M.B.A. at the University of Louisville.



Albert A. Kirkpatrick
KHEAA Board Chair

Carroll was appointed to the KHESLC Board in July 1996 and currently serves as General Manager of the Hopkinsville Electric System. Additionally, he serves or has served on the boards of the Hopkinsville Industrial Foundation, Kentucky Chamber of Commerce, Hopkinsville-Christian County Chamber of Commerce, Tennessee Valley Public Power Association, BB&T Local Bank, and Land Between the Lakes Association. Carroll received his M.B.A. in 1983 from Austin Peay State University.



Austin B. Carroll
KHESLC Board Chair

McCormick was appointed Executive Director of KHEAA and The Student Loan People in October 2001 following a nationwide search. Prior to joining KHEAA and KHESLC, he served as Vice President for National Affairs for the Apollo Group and as a member of the University of Phoenix Online teaching faculty. Previously held positions include Chair of the Direct Loan Task Force within the U.S. Department of Education, Executive Director of the Alaska Commission on Postsecondary Education, and President and CEO of the Texas Guaranteed Student Loan Corporation. Two major financial aid organizations elected him as their President—the National Association of Student Financial Aid Administrators and the National Council of Higher Education Loan Programs. He earned his Ph.D. from the University of Texas at Austin.



Dr. Joe L. McCormick
Executive Director